

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

Mordon E. Krater

South Huron Valley Utility Authority

Financial Report
with Supplemental Information
December 31, 2007

South Huron Valley Utility Authority

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Independent Auditor's Report

To the Board of Commissioners
South Huron Valley Utility Authority

We have audited the accompanying basic financial statements of South Huron Valley Utility Authority as of December 31, 2007 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of South Huron Valley Utility Authority as of December 31, 2007 and the changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, as identified in the table of contents, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South Huron Valley Utility Authority's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

March 13, 2008

South Huron Valley Utility Authority

Management's Discussion and Analysis

Using this Annual Report

South Huron Valley Utility Authority (SHVUA or the "Authority") is a joint venture of the Charter Townships of Brownstown, Huron, and Van Buren, the cities of Flat Rock, Gibraltar, Romulus, and Woodhaven, and the Village of South Rockwood. The Authority was founded in order to acquire and operate a sewage and wastewater treatment system, formerly operated by Wayne County. The Authority began operations on March 1, 1999. The Authority subcontracts all operations of the system and has no employees. This annual report consists of a series of financial statements, footnotes, and supplemental information. The statement of net assets and the statement of revenue, expenses, and changes in net assets provide information about the financial activities of the Authority. This is followed by the statement of cash flows, which presents detailed information about the changes in the Authority's cash position during the year. The next section includes the notes to the financial statements, which disclose the Authority's significant accounting policies and additional information related to certain amounts included on the statement of net assets. The final component of the annual report is the supplemental information, which is provided for the purpose of additional analysis.

Financial Overview

In analyzing the Authority's financial position, it is important to recognize the mission of the Authority. All debt of the Authority is backed by the full faith and credit of its eight member communities, except for the City of Romulus, which does not participate in the debt or operating costs of the Authority. From a financial perspective, the Authority's core objective is to manage the long-term costs of sewage disposal. In essence, the Authority acts as a conduit for all of its members. The amounts to be charged to its members will, by definition, be equal to the Authority's costs of providing sewage transportation and treatment. The key financial statistics for the Authority, therefore, relate to measurements of the ability to reduce total costs to its members (as opposed to the ability to accumulate financial resources).

Condensed Financial Information

The following table presents condensed information about the Authority's financial position as of December 31, 2007 and 2006:

	2007	2006
Assets		
Current assets	\$ 484,857	\$ 987,974
Noncurrent assets	106,297,342	108,512,625
Total assets	106,782,199	109,500,599
Liabilities		
Current liabilities	1,123,245	1,214,752
Long-term liabilities	30,472,133	32,865,466
Total liabilities	31,595,378	34,080,218

South Huron Valley Utility Authority

Management's Discussion and Analysis (Continued)

	2007	2006
Net Assets		
Invested in capital assets - Net of related debt	\$ 74,519,866	\$ 74,461,120
Restricted for capital purposes	242,368	327,569
Unrestricted	424,587	631,692
Total net assets	<u><u>\$ 75,186,821</u></u>	<u><u>\$ 75,420,381</u></u>

Current assets decreased by a significant amount due to a few situations that have negatively affected the SHVUA cash flow. Lookback adjustments for fiscal years 2005 and 2006 were finalized. Communities owed money were paid in full, but communities owing money to the Authority were given three years to pay the money back. Most communities are taking advantage of this arrangement and have not submitted full payment as of December 31, 2007. In addition, there was a large unexpected expenditure payable to Earth Tech for Molybdenum and Toluene cleanup in the amount of \$215,415.

The following table presents condensed information about the Authority's revenues and expenses for the years ended December 31, 2007 and 2006:

	2007	2006
Operating Revenue	\$ 3,863,191	\$ 3,622,713
Operating Expenses	<u>4,102,112</u>	<u>3,481,319</u>
Operating (Loss) Income	(238,921)	141,394
Nonoperating Income (Expenses)	<u>5,361</u>	<u>(37,842)</u>
Change in Net Assets	(233,560)	103,552
Net Assets - Beginning of year	<u>75,420,381</u>	<u>75,316,829</u>
Net Assets - End of year	<u><u>\$ 75,186,821</u></u>	<u><u>\$ 75,420,381</u></u>

The sewage billings from contributing communities increased by 6 percent in 2007. The billings for the Trenton Arm Pump Station and the Odette Pump Station were not increased from the amount charged in 2006.

South Huron Valley Utility Authority

Management's Discussion and Analysis (Continued)

The total operating expenses for 2007 increased by roughly 18 percent. This was the first full fiscal year that operation and maintenance costs were paid to Earth Tech, related to the new equalization basin. The Camp Dresser & McKee Inc. (CDM) original contract was amended to perform various additional duties such as the development of a "system model" and increased corrective maintenance analysis. In addition, a contract extension was put into place in October 2007, which included a budget increase of \$54,021.

Budgetary Highlights

The amended budget projected a net deficit of \$291,603. The final net deficit was \$133,869. The primary reason for the difference was due to Earth Tech not purchasing a capital item originally approved and lower than expected maintenance and repair expenses based on Earth Tech's projection.

Capital Asset and Debt Administration

There was only one capital purchase by Earth Tech, which was related to upgrading the "Grit System" within the plant. There were minimal monthly capital expenses paid to Hubbell, Roth and Clark (HRC) for the monitoring of the equalization basin construction and the ongoing dispute between the Authority and the primary basin construction contractor. The total paid to HRC during 2007 was \$94,290.

Economic Factors and Next Year's Budgets and Rates

Monthly operation and maintenance contributions by each community were raised by 9 percent in 2008, in an effort to return the Authority's cash balances to the desired balances of \$400,000 for general O & M and \$800,000 in cash reserves. Unfortunately, at the February 2008 meeting, there were some significant financial issues raised by Earth Tech. There were some emergency repairs reported which will cost roughly \$300,000. In addition, there were some errors reported in the way Earth Tech had calculated its volumes for waste removal. Earth Tech calculated that it had underbilled the Authority by roughly \$500,000 for the contract period 2004 through 2007. The Authority is currently in the process of reviewing the information to determine an appropriate resolution to the matter. In addition, the 2008 budget should be adjusted to reflect the true waste removal costs once calculated by Earth Tech. These significant items will have a significant adverse affect on the 2008 budget and funding sources since these items will have to be resolved.

Contacting the Authority's Management

This financial report is intended to provide the Authority's members with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives from the member communities. If you have questions about this report or need additional information, we welcome you to contact the Authority's chairperson.

South Huron Valley Utility Authority

Statement of Net Assets December 31, 2007

Assets

Current assets:

Cash (Note 3)	\$ 294,718
Prepaid expenses	144,565
Due from other governmental units - Current portion	<u>45,574</u>
Total current assets	484,857

Noncurrent assets:

Due from other governmental units - Net of current portion	240,159
Restricted assets (Note 3)	1,012,121
Bond issuance costs - Net of accumulated amortization of \$10,932	53,063
Capital assets not being depreciated (Note 4)	898,091
Capital assets being depreciated - Net (Note 4)	<u>104,093,908</u>
Total noncurrent assets	<u>106,297,342</u>
Total assets	106,782,199

Liabilities

Current liabilities:

Accounts payable	273,603
Accounts payable - Lookback adjustment	390,299
Accounts payable - Construction	421,010
Due to other governmental units (Note 6)	<u>38,333</u>
Total current liabilities	1,123,245

Long-term liabilities - Long-term debt (Note 5)	<u>30,472,133</u>
Total liabilities	<u>31,595,378</u>

Net Assets

Invested in capital assets - Net of related debt	74,519,866
Restricted for capital purposes	242,368
Unrestricted	<u>424,587</u>
Total net assets	<u>\$ 75,186,821</u>

South Huron Valley Utility Authority

Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2007

Operating Revenue

Sewage billings	\$ 3,847,487
Permit and review fees	15,704
Total operating revenue	3,863,191

Operating Expenses

Contractual - Operation and maintenance	3,215,189
Professional fees	159,460
Insurance expense	233,807
Financial consulting	20,000
Land application fee	10,876
Meter testing	277,521
Maintenance	25,107
Permit and review fees	25,063
Lookback expense	132,127
Miscellaneous expense	2,962
Total operating expenses	4,102,112

Operating Loss (238,921)

Nonoperating Income (Expenses)

Debt billings to communities	3,060,289
Interest income and other	73,493
Interest expense	(692,643)
Depreciation and amortization	(2,435,778)

Net nonoperating income 5,361

Net Loss (233,560)

Net Assets - Beginning of year 75,420,381

Net Assets - End of year \$ 75,186,821

South Huron Valley Utility Authority

Statement of Cash Flows Year Ended December 31, 2007

Cash Flows from Operating Activities

Cash received from communities	\$ 3,735,680
Cash payments to suppliers for goods and services	<u>(4,167,203)</u>
Net cash used in operating activities	(431,523)

Cash Flows from Capital and Related Financing Activities

Principal and interest paid on long-term debt	(3,047,643)
Payments for the acquisition and construction of capital assets	(136,324)
Collection of debt billings to communities	<u>3,060,289</u>
Net cash used in capital and related financing activities	(123,678)

Cash Flows from Investing Activities - Interest received on investments 73,493

Net Decrease in Cash and Cash Equivalents (481,708)

Cash and Cash Equivalents - January 1, 2007 1,788,547

Cash and Cash Equivalents - December 31, 2007 \$ 1,306,839

Reconciliation of Operating Income to Net Cash from Operating Activities

Operating income	\$ (238,921)
Adjustments to reconcile operating income to net cash from operating activities - Changes in assets and liabilities:	
Due from other governmental units	(127,511)
Prepaid expenses	64,750
Accounts payable	(252,865)
Due to other governmental units	<u>123,024</u>
Net cash used in operating activities	<u><u>\$ (431,523)</u></u>

Statement of Net Assets Classification of Cash and Cash Equivalents

Cash and cash equivalents	\$ 294,718
Restricted assets - Capital replacement and improvement (Note 3)	<u>1,012,121</u>
Total	<u><u>\$ 1,306,839</u></u>

South Huron Valley Utility Authority

Notes to Financial Statements December 31, 2007

Note 1 - Nature of Entity

South Huron Valley Utility Authority (the "Authority") is a joint venture of the Charter Townships of Brownstown, Huron, and Van Buren, the cities of Flat Rock, Gibraltar, Romulus, and Woodhaven, and the Village of South Rockwood. The Authority was founded in order to acquire and operate a sewage and wastewater treatment system formerly operated by Wayne County. The Authority began operations on March 1, 1999. The Authority subcontracts all operations of the system and has no employees.

The Internal Revenue Service has ruled that the Authority is a political subdivision of the State of Michigan and, as a result, is exempt from federal income tax.

Note 2 - Summary of Significant Accounting Policies

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity - The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental agencies to be included in the reporting entity. In accordance with these guidelines, there are no component units to be included in these financial statements.

Basis of Accounting - The accrual basis of accounting is used by the Authority. The Authority follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989. The Authority has elected not to follow private sector standards issued after November 30, 1989.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Authority's policy is to first apply restricted resources.

Operating Revenue - Operating revenue represents billings to member communities based on the Authority's cash-based operating expenses. Therefore, the Authority has shown depreciation expense as a nonoperating expense for purposes of the statement of revenue, expenses, and changes in net assets.

Capital Assets - Capital assets in the amount of \$78,248,476 were transferred by Wayne County on March 1, 1999. Since the Authority had economic ownership of these assets, they were recorded at net book value. All other capital assets are recorded at cost or, if donated, at their estimated fair value on the date donated. Depreciation on such assets is charged as a nonoperating expense of the Authority.

South Huron Valley Utility Authority

Notes to Financial Statements December 31, 2007

Note 2 - Summary of Significant Accounting Policies (Continued)

Bond Issuance Costs - The Authority incurred bond issuance costs in association with State Revolving Funds issued in June 2004. Total costs incurred in 2004 were \$63,995. These costs are being amortized using the straight-line method over the life of the bonds.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	60 years
Interceptors	50 years
Machinery and equipment	5-20 years
Equalization basin	50 years
Sewer meters	10 years

Cash Equivalents - For purposes of the statement of cash flows, all highly liquid investments with original maturities of three months or less are considered to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Other accounting policies are disclosed in other notes to the financial statements.

Note 3 - Deposits

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Authority is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

South Huron Valley Utility Authority

Notes to Financial Statements December 31, 2007

Note 3 - Deposits (Continued)

The Authority has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized the Authority to deposit and invest in all investments allowed by the state statutory authority as listed above. The Authority's deposits and investment policies are in accordance with statutory authority.

The Authority's cash is subject to certain risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had \$1,006,839 of bank deposits (checking and savings accounts and certificates of deposit) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The Authority's deposits at December 31, 2007 are included on the statement of net assets under the following classifications:

Recorded as cash	\$ 294,718
Recorded as restricted assets*	<u>1,012,121</u>
Total	<u>\$ 1,306,839</u>

* These deposits are restricted for capital replacement and improvement. Included in this amount is \$242,368 of proceeds received from communities for additional expenses related to the construction of the equalization basin as well as \$769,753 of reserves.

South Huron Valley Utility Authority

Notes to Financial Statements December 31, 2007

Note 4 - Capital Assets

Capital assets consist of the following:

	Balance at January 1, 2007	Additions	Balance at December 31, 2007
Capital assets not being depreciated:			
Land	\$ 898,091	\$ -	\$ 898,091
Construction in progress (Note 9)	-	-	-
Subtotal	898,091	-	898,091
Capital assets being depreciated:			
Buildings	58,628,421	-	58,628,421
Interceptors	46,243,019	-	46,243,019
Machinery and equipment	952,598	42,034	994,632
Equalization basin	14,441,787	94,290	14,536,077
Sewer meters	1,290,687	-	1,290,687
Subtotal	121,556,512	136,324	121,692,836
Less accumulated depreciation for:			
Buildings	(6,453,810)	(977,140)	(7,430,950)
Interceptors	(7,398,880)	(924,860)	(8,323,740)
Machinery and equipment	(581,706)	(110,787)	(692,493)
Equalization basin	(96,279)	(290,722)	(387,001)
Sewer meters	(635,675)	(129,069)	(764,744)
Subtotal	(15,166,350)	(2,432,578)	(17,598,928)
Net capital assets being depreciated	106,390,162	(2,296,254)	104,093,908
Total capital assets - Net of depreciation	\$ 107,288,253	\$ (2,296,254)	\$ 104,991,999

South Huron Valley Utility Authority

Notes to Financial Statements December 31, 2007

Note 5 - Long-term Debt

Outstanding Debt

The following is a summary of the debt outstanding of the Authority as of December 31, 2007:

	January 1, 2007	Reductions	December 31, 2007
State Revolving Fund Bonds #5028-01, dated September 1998, maturing through 2011, in the amount of \$9,680,000. Principal payments are due annually on April 1, with interest at 2.00 percent	\$ 4,025,000	\$ (775,000)	\$ 3,250,000
State Revolving Fund Bonds #5161-01, dated September 1998, maturing through 2020, in the amount of \$26,307,133. Principal payments are due annually on October 1, with interest at 2.25 percent	19,582,133	(1,205,000)	18,377,133
State Revolving Fund Bonds #5212-01, dated June 2004, maturing through 2026, in the amount of \$9,220,000. Principal payments are due annually on April 1, with interest at 2.125 percent	9,220,000	(375,000)	8,845,000
Total of long-term debt outstanding	<u>\$ 32,827,133</u>	<u>\$ (2,355,000)</u>	<u>\$ 30,472,133</u>

Debt Service Requirements

The annual principal and interest requirements for the debt outstanding as of December 31, 2007 are as follows:

Years Ending December 31	Principal	Interest	Total
2008	\$ 2,405,000	\$ 470,586	\$ 2,875,586
2009	2,455,000	426,848	2,881,848
2010	2,510,000	382,248	2,892,248
2011	2,560,000	336,673	2,896,673
2012	1,765,000	448,701	2,213,701
2013-2017	9,415,000	1,637,097	11,052,097
2018-2022	7,192,133	578,303	7,770,436
2023-2026	2,170,000	93,500	2,263,500
Total	<u>\$ 30,472,133</u>	<u>\$ 4,373,956</u>	<u>\$ 34,846,089</u>

South Huron Valley Utility Authority

Notes to Financial Statements December 31, 2007

Note 5 - Long-term Debt (Continued)

Interest

Total interest incurred for the year ended December 31, 2007 was \$692,643.

Debt Service Agreement

The outstanding debt of the Authority will be funded through direct billings to the community members, rather than through working capital. Therefore, the Authority has classified all outstanding debt service requirements as long-term.

Note 6 - Due from/to Other Governmental Units

The Authority has accounts receivable approximating \$67,000 from one of its member communities for legal fees and lookback charges. The member community is disputing the amount it owes and believes it to be significantly less than \$67,000.

In May 2002, a lawsuit filed by one of the Authority's member communities was settled. The settlement requires the Authority to pay the filing community \$38,333 each year from December 31, 2003 through December 31, 2008. The Authority will collect the funds for this settlement through a separate billing to the member communities based on usage percentages. The related receivable and payable have been recorded at December 31, 2007.

Note 8 - Risk Management

The Authority is exposed to various risks related to property loss, torts, and errors and omissions. The Authority has purchased commercial insurance for possible claims relating to these risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance since inception. The Authority has no employees, and, therefore, does not have exposure to risks related to employee injuries or medical expenses.

Note 9 - Contingency and Subsequent Events

The Authority is involved in a claim brought by the DeMarria Building Co., regarding the timing of services provided to the Authority for the equalization basin. The proceedings have not yet progressed to a point where a legal opinion can be reached as to the ultimate liability, if any, that may result from the resolution of this matter and the Authority has not recorded a liability at December 31, 2007.

South Huron Valley Utility Authority

Notes to Financial Statements December 31, 2007

Note 9 - Contingency and Subsequent Events (Continued)

Subsequent to year end, the Authority authorized an emergency repair for one of the interceptor lines in the system. The estimated cost for the repair work is approximately \$300,000. The Authority is evaluating options related to the long-term reconstruction of the line; however, costs are not estimable at the date of this report.

Subsequent to year end, it was noted that there was a programming error in one of the formulas Earth Tech used to calculate inflows into the plant. This error resulted in possible understated billings to the Authority from 2001 through 2007. Earth Tech has requested an equitable adjustment under the current contract that would cover 2004 through 2007, which represents the current contract period. The Authority is in the process of reviewing the information and negotiating an adjustment with Earth Tech. Any potential adjustment is not estimable at the date of this report.

Other Supplemental Information

South Huron Valley Utility Authority

Other Supplemental Information Statement of Revenue and Expenses Budget and Actual Year Ended December 31, 2007

	Original Budget 2007	Amended Budget 2007	Audited 2007	Difference
Revenue				
Revenue from communities:				
Plant and related costs	\$ 3,627,350	\$ 3,627,339	\$ 3,627,339	\$ -
Trenton Arm Pump Station	144,204	144,204	144,204	-
Odette Pump Station	15,000	15,000	15,000	-
Interceptor O&M Billings	-	60,944	60,944	-
Permit and review fees	57,333	14,954	15,704	750
Interest	20,000	56,333	56,992	659
Total revenue	3,863,887	3,918,774	3,920,183	1,409
Expenses				
Earth Tech	3,035,460	2,989,626	2,983,873	5,753
CDM flow metering O& M	147,764	274,085	277,521	(3,436)
Interceptor O&M expenses	-	60,944	25,107	35,837
Maintenance and repair	25,000	58,732	15,901	42,831
Insurance	222,951	233,807	233,807	-
Miscellaneous contractual	10,000	215,415	215,415	-
Financial administration	20,000	20,000	20,000	-
Professional fees	150,000	176,677	159,460	17,217
Land application fee	20,000	10,876	10,876	-
NPDES permit fees	20,000	13,750	13,750	-
Plan review expenses	15,000	11,313	11,313	-
Capital improvements	200,000	70,150	42,034	28,116
Miscellaneous expense	5,000	4,852	2,961	1,891
Depreciation	2,500,000	2,500,000	2,432,578	67,422
Total expenses	6,371,175	6,640,227	6,444,596	195,631
Net Loss	(2,507,288)	(2,721,453)	(2,524,413)	197,040
Cash Adjustments				
Depreciation	2,500,000	2,500,000	2,432,578	(67,422)
Capital improvements	(200,000)	(70,150)	(42,034)	28,116
Total funds provided for operations	<u>\$ (207,288)</u>	<u>\$ (291,603)</u>	<u>\$ (133,869)</u>	<u>\$ 157,734</u>

South Huron Valley Utility Authority

Note to Other Supplemental Information Year Ended December 31, 2007

Note - Budget and Actual Basis of Accounting

The statement of revenue and expenses - budget and actual is prepared on the accounting method utilized when preparing the budget. This method differs from the full accrual basis of accounting in that it is prepared on a cash flow basis including operational revenues and expenses and excluding the purchase of certain assets and debt payments.

Since the Authority operates as a proprietary fund, a budget is not required by the Uniform Budgeting and Accounting Act. The Authority has presented this information for purposes of additional management analysis only, and the unfavorable budget variances do not represent violations of State law.

South Huron Valley Utility Authority

**Report to the Board of Commissioners
December 31, 2007**



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To the Board of Commissioners
South Huron Valley Utility Authority

We have recently completed our audit of the basic financial statements of South Huron Valley Utility Authority (the "Authority") for the year ended December 31, 2007. In addition to our audit report, we are providing the following letter of required audit communication, summary of unrecorded possible adjustments, recommendations, and informational comments which impact the Authority:

	Page
Results of the Audit	I-3
Summary of Unrecorded Possible Adjustments	4
Other Recommendations	5

We are grateful for the opportunity to be of service to South Huron Valley Utility Authority. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

March 13, 2008

March 13, 2008

To the Board of Commissioners
South Huron Valley Utility Authority

We have audited the financial statements of South Huron Valley Utility Authority for the year ended December 31, 2007 and have issued our report thereon dated March 13, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated February 14, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with United States generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of South Huron Valley Utility Authority. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on February 20, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by South Huron Valley Utility Authority are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007.

We noted no transactions entered into by the organization during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were Note 6 and Note 9. The disclosures were formulated by reviewing the attorney confirmation related to the dispute and correspondence from the Authority's consultants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated March 13, 2008.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the organization, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the organization, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the organization's auditors.

This information is intended solely for the use of those charged with governance and management of South Huron Valley Utility Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Gordon E. Krater". The signature is written in a cursive, flowing style.

Gordon E. Krater

Client: **South Huron Valley Utility Authority**

Y/E: **12/31/2007**

ATTACHMENT I

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

		Increases (Decreases)				
Ref. #	Description of Misstatement	Assets	Liabilities	Net Assets	Revenue	Expenses
Known Misstatements:						
AI	To record an allowance for the receivable from City of Flat Rock for attorney fees	\$ (23,404)				\$ 23,404
Estimate Adjustments:						
None						
Implied Adjustments:						
None						
		-	\$ -	\$ -	\$ -	-
Combined effect		<u>\$ (23,404)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,404</u>

Conclude to pass posting the above entries as they are immaterial individually and in the aggregate to the financial statements taken as a whole.

Sharry Budd

Sean Bellingham

Other Recommendations

2007 Lookback Adjustment

We understand the Authority is currently reviewing the information related to the meter calibration issues identified for the 2007 lookback adjustment. Given the concern related to the reliability of previous data, the lookback adjustment for this year has not been allocated among the communities. Upon resolution of the matter, the amounts will be allocated accordingly.

Capitalization Policy

Based on our understanding, it appears the Authority does not have a formal capitalization and depreciation policy. The Authority does have an informal process by which capital expenditures over \$500 are capitalized and all assets are depreciated using the straight-line method. We understand the Authority is in the process of revising its operating agreement. We recommend the Authority consider including a formal capitalization and depreciation policy to further strengthen its internal controls in this revision.

Authorized Check Signers

The Authority has procedure in place requiring two signatures on every check (treasurer - Sharry Budd and Authority chairperson - Dave Flaten); however, during bank reconciliation control testing, it was noted that there were instances where the checks were signed by one individual during the year. We recommend the Authority consider adding a third person who can sign checks in case one of the other signers is unavailable.

We would like to thank Sharry Budd and Sean Bellingham for their assistance during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.